



MINUTES

PROPERTY TAXATION REVIEW COMMITTEE

September 1, 2004

MEMBERS PRESENT:

Senator Bryan Sievers,
Cochairperson
Senator Herman Quirmbach
Senator Pat Ward
Larry Countryman
R. Kim Dreher
Dale Hyman
Tim McGee

Representative Jim Kurtenbach,
Cochairperson
Representative Doug Struyk
Mike Ralston (nonvoting)
Curtis Rouse
Jerry Shepler
Larry Sigel
Ted Tedesco
Grant Veeder

Members Absent:
Representative Don Shultz
Cynthia Eisenhauer (nonvoting)
Tom Jarrett

MEETING IN BRIEF

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Organizational staffing provided
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- I. Procedural Business.
- II. Iowa Association of School Boards.
- III. Iowa League of Cities.
- IV. Iowa State Association of Counties.
- V. Iowa Farm Bureau
- VI. Discussion — Next Meeting.
- VII. Materials Filed With the Legislative Services Agency.



Property Taxation Review Committee

I. Procedural Business.

Call to Order. The first meeting of the Property Taxation Review Committee was called to order by temporary Cochairperson Bryan Sievers at 2:09 p.m. on Wednesday, September 1, 2004, in Room 22 of the State Capitol in Des Moines, Iowa. Members of the Committee who were present introduced themselves.

Election of Cochairpersons. Representative Struyk moved that the Committee elect Senator Sievers and Representative Kurtenbach as cochairpersons of the Committee. The motion was seconded and adopted by voice vote.

Proposed Rules. Cochairperson Kurtenbach indicated that a copy of the proposed rules for the Committee was sent to all members via e-mail. Cochairperson Kurtenbach asked to defer consideration of the proposed rules to a future meeting when Representative Shoultz would be present.

Adjournment. The Committee was adjourned at 5:50 p.m.

II. Iowa Association of School Boards.

Overview. Mr. Larry Sigel, Chief Financial Officer/Director of School Finance, Iowa Association of School Boards, distributed and discussed a handout entitled "Property Taxes and the School Foundation Formula." Mr. Sigel opined that the guiding goals of the school financing formula should be to link student achievement to the financing system and to achieve student equity in the amount spent per pupil and taxpayer equity in treating similarly situated taxpayers the same. Mr. Sigel discussed the school foundation formula contained in Code chapter 257 and stated that the formula strives to provide property tax relief and to reduce the percentage of costs paid from property taxes.

Mr. Sigel discussed transportation costs incurred by school districts. Cochairperson Sievers queried whether consolidation of schools might increase transportation costs. Senator Quirmbach commented that consolidation of schools increases transportation costs only if the consolidation involves closing school buildings.

Mr. Sigel also discussed school property tax levies. Mr. Sigel stated that a property-rich school district can generate more money with the uniform levy and that state aid provides equalization so that property-poor districts have more money to spend. Mr. Sigel stated that with additional levies, a district with low property values has a higher additional levy rate.

Special Education. Mr. Sigel also discussed taxpayer inequity caused by special education deficits. This occurs because districts with special education costs that exceed revenue generated by weighting must recoup those costs through property taxes the following year. Senator Quirmbach queried whether the recoupment is just transitional and caused by the arrival of new students. Mr. Sigel responded that the problem is statewide with a shortfall between what schools are forced to spend to fund special education and what the weightings provide.

Beneficial Features. Mr. Sigel suggested that certain aspects of the current system should be retained such as the concept of spending authority via the allowable growth formula that allows money not spent by a school district one year to be carried forward for the following year. Mr. Sigel



also suggested keeping the funding mechanism for special education to help achieve a goal of improving student achievement. Mr. Sigel stated that the diversity of funding sources is good so that if one source, such as the sales tax, is low one year, school budgets are not impacted so much.

Suggested Changes. Mr. Sigel suggested several solutions to the problem of school funding. First, Mr. Sigel suggested standardizing per pupil costs under the school foundation formula. Next, Mr. Sigel suggested rolling the instructional support levy into the formula since almost all districts have the levy anyway. Mr. Sigel also suggested funding transportation costs explicitly within the formula so that districts with high transportation costs do not suffer. Finally, Mr. Sigel suggested addressing the problem of taxpayer inequity by making changes in the formula such as raising the uniform levy, setting the foundation level at 100 percent, and indexing the uniform levy for inflation.

Senator Quirnbach questioned whether problems are created by the rollback of property valuations and whether it is possible to make a more stable tax base as property values increase in time. Mr. Sigel stated that there needs to be some way to deal with valuation to avoid big swings in property value.

Mr. Sigel opined that one of the largest factors preventing school reorganization is tax rate differentials because low-rate districts with declining enrollment often seek consolidation but high-rate districts are interested in consolidating only if it involves closing facilities in the low-rate districts, which is hard to sell in those districts. Mr. Sigel stated that the current system gives the illusion of local control over tax rates but the rates are really generated by the formula.

Cochairperson Kurtenbach suggested starting with a higher uniform levy. Mr. Sigel responded there could be a long-term phase-in of a higher uniform levy so that there would not be a disproportionate effect on property tax revenues or the General Fund in one year and additional levies could also be rolled into the formula. Cochairperson Kurtenbach suggested that everyone should be started at a uniform rate that is lower than the sum of the uniform levy and the lowest additional levy so that everyone would see a property tax reduction and then the uniform rate could be gradually raised. Cochairperson Kurtenbach also suggested keeping facilities-related levies outside the formula since debt service levies would probably be used less over time under the new formula.

In response to a question from Mr. Countryman, Mr. Sigel stated that such changes in the formula would be revenue neutral to individual districts but not to individual taxpayers. Cochairperson Sievers asked whether increasing the uniform levy meant that districts with the lowest additional levies would possibly see an increase in school district property taxes and Mr. Sigel indicated that was true.

III. Iowa League of Cities.

Ms. Susan Judkins, Director of Governmental Affairs, Iowa League of Cities, distributed and discussed a handout entitled "City Property Tax Issues." Ms. Judkins discussed the definition of a property tax and went through the history of the use of property taxes in the United States and in Iowa. Ms. Judkins presented a chart noting that in 1999 Iowa ranked 13th highest among the



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states for local property taxes as a percentage of local taxes. Senator Quirmbach noted that this statistic does not mean that Iowa has high local taxes.

Ms. Judkins indicated that from 1973 to the present there has been a dramatic shift in the Iowa property tax base from agricultural and personal property to residential and commercial property. Ms. Judkins stated that the residential property tax base is now the largest part, the agricultural tax base has been cut in half, and the commercial tax base has doubled. Cochairperson Sievers asked how much the shift in property taxes paid is due to new construction and how much is due to valuation changes. Ms. Judkins responded that there is no data available to explain the entire shift.

The property tax was broken down by taxing jurisdiction with cities collecting 28.3 percent. A comparison of Iowa cities to the nation on a per capita basis for FY 1998-1999 was shown indicating a higher than average per capita property tax. The rollback of actual value to assessed value for residential value was commented on along with the inequities that Ms. Judkins perceived.

A further discussion on Iowa's property tax system was provided. These included the fact that property taxes are a relatively stable revenue source, they are deductible on income tax returns, citizens are provided a chance for input, and it is locally based. The item emphasized as an example of what is not working is the rollback rules and application and the resulting shift in taxes to other classes. Senator Quirmbach commented that taxing jurisdictions may have a higher percentage of property tax than nationally, but Iowa has a very low cost of government. A four-page handout was provided by the League which was compiled by the Department of Management. This shows the usage of property taxes for the general categories of community protection, human development, home and community environment, and policy and administration with a breakdown in each of the categories by type of service and the percentage of cities that used property tax for that service.

IV. Iowa State Association of Counties.

Mr. John Easter, Director of Governmental Affairs, Iowa State Association of Counties, made the next presentation. Mr. Easter distributed a handout that broke county revenues down by source, of which property tax is 43 percent, the various county expenditures by service areas, and delineation of property taxes levied by taxing authority. This last item showed the average consolidated levy per \$1,000 in valuation for FY 1999-2000 was \$29.84 and the average consolidated levy for FY 2003-2004 was \$32.80.

Mr. Easter noted that the association is still studying proposed changes needed in the tax system. Some of the concerns expressed related to the agricultural and residential property rollback and the statutory tie between the two, and the workings of tax increment financing (TIF). Mr. Easter opined that under TIF districts the local taxing jurisdictions should be given a sort of veto over the use of their tax levy on the incremental value, that the rollback should apply to both the base and the incremental value, and that accountability is needed because of concerns of the duration, size, manipulation of area, and combining of TIF districts.



V. Iowa Farm Bureau.

Background. Mr. Joe Johnson, Director of State Legislative Affairs, Iowa Farm Bureau, made the last presentation. He stated that a handout of his presentation would be provided to staff. He then commented that property taxes have increased by 17.6 percent since FY 2000-2001, an average of 5.8 percent per year. The totals for cities, counties, and school districts increases are 20.3 percent, 15.6 percent, and 16.6 percent, respectively. Taxable valuation by class since the 1981 assessment year indicates an increase for residential from \$25 billion to \$45 billion, agricultural from \$16 billion to \$20 billion, and the rest from a combined \$20 billion to \$35 billion. Mr. Johnson pointed out that the increase in residential is largely due to the increased number of new homes, which is also why residential is paying a higher percent of the total property tax.

Proposals. Mr. Johnson discussed some of the proposals that have been suggested while emphasizing that the Iowa Farm Bureau is not advocating any particular one. The first discussed is a property tax limitation. He admitted that this interferes with home rule and affects the ability of a city or county to meet expenditures in those areas that are growing or to react to emergencies. Another is to adjust the capitalization rate in valuing agricultural land. Without the same consolidated rate, a change from 7 percent to 6 percent would result in an increase in taxes on the average 352-acre farm of \$762. A change from 7 percent to 5 percent would see the increase total \$2,165.

Senator Quirmbach objected because these increases assume no rate adjustment. This would cause an explosion in tax revenue and adjustments would of necessity be made. Mr. Johnson responded that if such a change in the capitalization rate is made, some sort of limitation or restriction should be considered to prevent such an explosion. Mr. Johnson noted that when the state took over the funding for mental health, to make sure that savings to counties was passed on to taxpayers, a freeze on property taxes for three years was put in place. A chart was shown that indicated that after the three years, the county property tax collections increased to the level prior to those three years.

Mr. Johnson continued with his comments related to the capitalization rate used for agricultural land and noted that even if rates were adjusted for no new tax collections, the taxes on that average farm would still see increases, but at a rate of 70 percent of the aforementioned increases if the rates were not adjusted.

Another proposal discussed by Mr. Johnson is freezing the residential rollback percentage. If it is frozen at the FY 2001-2002 level of 56.27 percent, he said, an owner of a \$100,000 home would have paid \$160 more in 2004.

Policy Questions. Mr. Johnson turned to questions that should be discussed. The first is: What should property taxes pay for? Next: What does property tax reform mean — increased property taxes or decreased burden on taxpayers? Next: If it is to decrease the burden, should alternative funding sources be looked at, should how services are delivered be considered, or should a reduction in services be considered? Next: If equity is to be provided, such as lowering commercial taxes, then should an alternative funding source be looked for or should taxes on the other classes be increased? Finally: If an alternative funding source is to be considered, should controls be put in place and how and what kind? A final comment by Mr. Johnson was that if the



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assessment limitation tie between agricultural and residential property is severed or if a reduction or elimination of the rollback is considered, then restrictions on property taxes should be considered. Mayor Tedesco said there is a need to look at exemptions presently allowed. Mr. Johnson stated that it is important to look at these exemptions in light of the impact on both the taxpayer and local governments. Senator Quirmbach suggested that changes should be phased in and restrictions would not necessarily need to be included.

VI. Discussion — Next Meeting.

Discussion. Senator Quirmbach stated that to produce recommendations that will make it through the General Assembly, three needs must be met by the Committee. The first is to move forward on a nonpartisan or bipartisan basis since there will probably be winners and losers. Second, all members should vote on the recommendations and each vote should count toward each recommendation. Third, focus on one or two problems because there is not enough time to consider everything. Senator Quirmbach said his focus would be on the rollback with its inequities and shifts in burden of tax.

Mr. Hyman felt that a reduction in property tax should be the goal because in the past there has been a shifting of the burden between classes of property.

Mayor Tedesco stated that the cost of services is increasing thus, if you want to decrease the burden, you are going to need to find an alternative source of revenue.

Mr. Sigel opined that rate differential is something to be considered since property taxpayers object to paying more than similarly situated property taxpayers.

Cochairperson Kurtenbach emphasized that before discussing the rollback other items need to be included in that discussion because the rollback is a political football.

Next Meeting. The Committee decided that the next meeting dates would be on Tuesday, September 28, and Thursday, October 14, from 8:00 a.m. to noon. Some of the topics that were discussed as possible items for the agendas involved: classification of apartments and land in mobile home parks; presentations by persons representing community colleges; State Appeal Board; Mr. Dick Stradley of the Department of Revenue on the training of assessors and assessor office levies; pension of police and fire fighters; providing of fire protection by cities and townships; and mergers by local governments and school districts.

VII. Materials Filed With the Legislative Services Agency.

The following materials and handouts were made available to the members of the Committee and are on file with the Legislative Services Agency. The documents may be accessed on the Internet at: <http://www4.legis.state.ia.us/aspx/Internet/Committees/Interim/PropertyTax.htm>



1. The Once and Future Property Tax -- Zelinski Law Review article
2. Criteria For Good Proposals for Property Tax Reform -- Dr. Thomas Pogue, University of Iowa
3. Assessment Limitation Historical Information -- Iowa League of Cities
4. City of Ames Budget Information -- Iowa League of Cities
5. City Property Tax Issues -- Iowa League of Cities
6. Property Taxes and the School Foundation Formula -- Iowa Association of School Boards
7. County Revenue Sources, Expenditures, and Property Taxes by Levying Authority -- Iowa State Association of Counties
8. Property Tax Trends and Reform Issues -- Iowa Farm Bureau Federation

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